



SAVINGS TOOLS

Once an individual has determined how much money is appropriate for their savings fund, they must determine which savings tools to place their money in. **Savings tools** are secure and liquid accounts offered by depository institutions that assist in the management of a savings fund. The five most common types of savings tools are checking accounts, savings accounts, money market deposit accounts, certificates of deposit, and savings bonds.

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Savings tools provide asset protection because they are very secure. Most depository institutions offering savings tools are backed by government insurance. The most common type of government insurance is offered by the **Federal Deposit Insurance Corporation (FDIC)**. FDIC is a federal government agency that insures member depository institutions against loss. If a depository institution covered by FDIC fails, FDIC will restore the lost funds up to \$250,000 per account. As long as there is not more than \$250,000 in any single account, then the owner of the account will receive the entire value of their account.

It is important to determine which savings tools are appropriate to assist in the attainment of personal financial goals.

CHECKING ACCOUNT

DEFINITION:

Checking accounts could also be named a transaction account because it is a tool used to transfer funds deposited into the account to make a cash purchase.

ACCESSIBILITY:

A checking account is the most liquid of all the savings tools because the money is considered cash. The funds are easily accessed through a check, an automated teller machine (ATM), a debit card, the telephone, or Internet.

INTEREST:

Checking accounts may be either non-interest or interest earning. If they are interest earning, the interest rate is usually the lowest available for any of the savings tools.

Before opening a checking account, learn all of the requirements and restrictions.



FEATURES:

Checking accounts are available at depository institutions. They are popular among consumers because they reduce the need to carry large amounts of cash. Many different types of checking accounts are available and the requirements for each one are different. Some require a minimum balance, charge transactions fees, or have limits on the number of checks written each month. Many of the checking accounts available for participants are free which means there are no minimum balance requirements and it allows unlimited check writing.

SAVINGS ACCOUNT

DEFINITION:

A **savings account** is an account to hold money not spent on current consumption. It allows for frequent deposits and withdrawals of funds, is easily accessible, and can be used as a place to store money for emergencies or to temporarily hold money not needed for daily living expenses.

INTEREST:

Savings accounts are interest-earning, but have lower interest rates compared to other savings tools except checking accounts.



SAVINGS TOOLS

SAVINGS ACCOUNT, CONTINUED

ACCESSIBILITY:

Savings accounts are more liquid than everything except checking accounts because a consumer can easily get money out of a savings account in a few minutes. They are accessible through the depository institution, ATMs, telephone, or Internet.

Requirements of a savings account will vary depending upon the depository institution.

FEATURES:

Savings accounts are available at depository institutions. Requirements of a savings account will vary depending upon the depository institution. For example, some savings accounts may have minimum balance requirements. However, the federal government mandates that savings accounts allow six electronic withdrawals each month. If this electronic withdrawal limit is reached, the owner of the savings account will be charged a fee for every transaction exceeding the limit. The amount of the fee depends upon the depository institution. Before opening a savings account, consumers should be aware of all requirements, restrictions, and fees associated with the account.

MONEY MARKET
DEPOSIT ACCOUNT**DEFINITION**

A **money market deposit account** is a government insured account offered at most depository institutions.

INTEREST

Money market deposit accounts offer tiered interest rates. **Tiered interest rates** mean the amount of interest earned depends on the account balance. For example, a balance of \$10,000 will earn a higher interest rate than a balance of \$2,500.

ACCESSIBILITY

Money market deposit accounts have a minimum balance requirement and are limited to a certain number of transactions each month (less than a savings account). Therefore, money market deposit accounts are less liquid than checking and savings accounts.

FEATURES

Customers are usually required to deposit a minimum amount to open a money market deposit account (typically \$1,000). If the average monthly balance falls below a specified amount, the entire account will earn a lower interest rate. Money market deposit accounts have a higher average return than checking and savings accounts; less liquidity is a trade-off for a higher return.

CERTIFICATE OF
DEPOSIT**DEFINITION**

A **certificate of deposit (CD)** is an insured interest earning savings tool that allows restricted access to the funds. The deposits in CDs have to be held for a certain length of time, which can range from seven days to eight years.

INTEREST

The interest rate of a CD varies depending upon the specified time length and amount of money deposited. In most cases, the longer the length of the CD and the higher the deposited funds, the higher the interest rate will be.

The interest rate on a CD is determined by the duration of the deposit and the amount of money deposited.

ACCESSIBILITY

CDs are less liquid than checking, savings, and money market deposit accounts. If the funds are withdrawn before the end of the designated time period, the owner of the CD will be assessed large penalty fees.

FEATURES

CD's are offered by depository institutions. If the funds are held for the designated time period, then CDs are simple with no risks and no fees. The deposits in a CD can range from \$100 to \$250,000. A person would not want to exceed \$250,000, because the funds would no longer be insured.

SAVINGS TOOLS

SAVINGS BOND

DEFINITION:

A bond is similar to a loan but is given to a company or the government. There are many different types of bonds available but only one is considered a secure savings tool. A **savings bond** is a discount bond purchased for 50% of the face value from the government. For a \$100.00 savings bond, a person would invest \$50.00.

INTEREST:

Savings bonds are redeemed once they double in value. The amount of time it takes a savings bond to double in value depends on the current interest rate offered.

ACCESSIBILITY:

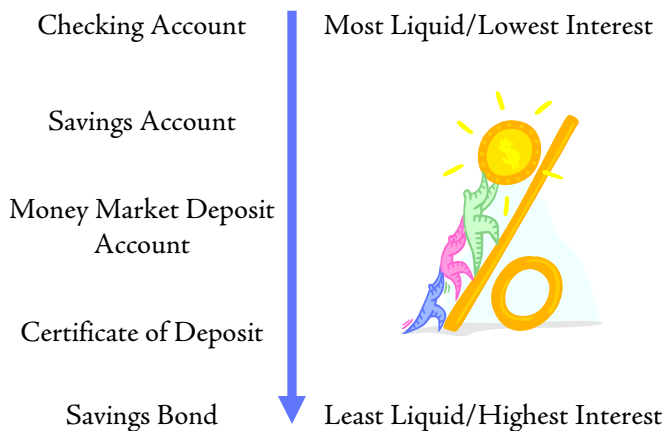
Savings bonds are the least liquid of all the savings tools. Access to funds is restricted.

Savings bonds are the least liquid of all the savings tools.

FEATURES:

Savings bonds are affordable and safe because they are backed by the U.S. government. They can be purchased for \$25.00–\$10,000.00. Savings bonds offer certain tax benefits. Interest earned is exempt from being taxed until the bond is redeemed. If the bond is used to pay for college, it is tax exempt when redeemed.

LIQUIDITY AND INTEREST



HIGHER INTEREST RATES ARE A
TRADE-OFF FOR LOWER LIQUIDITY.

CHOOSING A SAVINGS TOOL

Different savings tools can be used to assist an individual in reaching personal financial goals. Higher interest rates are a trade-off for lower liquidity. Therefore, when and how often an individual needs access to their funds will help determine which savings tools to use. For example, if an individual has a goal to develop an emergency savings fund of \$2,000, they would want to use a very liquid account to allow the money to be used for unknown emergency situations. A savings account would work well to help reach this goal, because the funds in a savings account are very liquid and accessible in emergency situations. However, if a family wants to save for a vacation in one year, the money being saved does not need to be liquid for an entire year. Therefore, the family could utilize a CD or savings bond with a maturity date one year in the future. By understanding the features of different savings tools, an individual can choose which tools will help them reach their financial goals.

DEPOSITORY INSTITUTIONS

It is important to understand specific features of savings tools will vary among different depository institutions. Every depository institution will offer different interest rates, accessibility options, fees, penalties, and minimum balance requirements for the same type of savings tool. Therefore, once the appropriate savings tool has been selected, it is important to research and compare that savings tool at different depository institutions in order to find the best option. Keep in mind an individual is not limited to one depository institution. An individual can choose to have different savings tools at different depository institutions.